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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE YEAR ENDED 31 DECEMBER 1998*/

*/ An annex contains follow-up actions by the Administration to implement the Board's recommendations for 1997, as well as the comments of the Board.

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CHAPTER I

REPORT OF THE BOARD OF AUDITORS

Summary

The Board of Auditors has audited the operations of the voluntary funds administered by the United Nations High Commissioner for Refugees at the headquarters of the Office of the United Nations High Commissioner for Refugees (UNHCR) at Geneva and at its Branch Offices in Austria, China, Croatia, Djibouti, France, Germany, Greece, Iran, Italy, Lebanon, North West Somalia, Saudi-Arabia, Syria, Turkey and Venezuela for the period from 1 January to 31 December 1998. The Board also validated the financial statements of the voluntary funds administered by the High Commissioner.

The Board's main findings are as follows:

(a) The financial statements and schedules of the voluntary fund generally conform to the United Nations Accounting Standards, except for recognition of income for Trust Funds and disclosure of liabilities for end-of-service benefits;

(b) Of $346.4 million advanced to the implementing partners during 1998 and recorded as expenditure, financial reports had not been received for $92.8 million as at 31 March 1999. In addition, audit certificates had not been received in respect of $97.0 million of funds advanced to Government partners and $234.5 million of funds advanced to other implementing partners. For 1997, however, audit certificates had been received to cover expenditures of $293 million (70 per cent) out of the $421 million advanced;

(c) The projects reviewed at headquarters and in the field did not contain work plans or milestones for project implementation;

(d) Out of 2,565 projects implemented during the years 1994 to 1997, 2,123 projects (83 per cent) had not been closed as of November 1998; and

(e) Although action in many of the key areas of Project Delphi was scheduled to have been completed by October 1997, the activity was either at the draft stage or was yet to commence as of April 1999.

The main recommendations are that the Administration should:

(a) Treat advances to implementing partners as accounts receivable at the time the advances are made and clear the advances to expenditure on receipt of satisfactory financial reports; and also persevere with its efforts to clear the outstanding balances of cash advances expeditiously, particularly the balances relating to earlier years;

(b)(i) Assess the reasons for non-compliance by respective government and non-governmental implementing partners with the requirement to render audit certificates as prescribed in the sub-agreements; and

(ii) Draw up a strategy, in consultation with the Board of Auditors, for securing sufficient audit certificates, based on the materiality and perceived level of risk of individual projects, to provide adequate evidence in support of expenditure reported by implementing partners;

(c) Ensure that work plans are programme specific and that they are prepared as an integral part of the project planning and monitoring process;

(d) Exercise stricter control over the progress of work of implementing partners in order to ensure achievement of the stated objectives; and recover the savings of $371,368 from the implementing partners concerned;

(e) Review completed projects to ensure that they are promptly closed; and

(f) Update plans still to be implemented under Project Delphi and prioritize those activities which can be implemented with the available resources; and monitor the implementation of those plans to ensure that they achieve their objectives.

A list of the Board's recommendations is included in paragraphs 12 and 13 of the report.

A. Introduction

1. In accordance with paragraph 22 of the statute of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period 1 January to 31 December 1998. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the Common Auditing Standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 1998 had been incurred for the purposes approved by the Executive Committee of UNHCR; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees presented fairly the financial position as at 31 December 1998. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at the headquarters of the office of the United Nations High Commissioner for Refugees at Geneva and at its branch offices in Austria, China, Croatia, Djibouti, France, Germany, Greece, Iran, Italy, Lebanon, North West Somalia, Saudi Arabia, Syria, Turkey and Venezuela.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The Board has also reviewed the adequacy of internal controls and the efficiency of procedures relating to the management of projects, system of procurement and management of assets. The Board also examined the present

status of Project Delphi, cash advances to implementing partners and the Memorandum of Understanding with the Office of Internal Oversight Services.

5. The Board continued its practice of reporting the results of specific audits through audit observations and management letters containing audit findings and recommendations to the Administration. The practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

6. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNHCR. The Administration has confirmed the facts on which the Board's observations and conclusions are based and has provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of financial issues and management issues respectively.

7. The Board's main recommendations are reported in paragraph 12 below. The detailed findings are discussed in paragraphs 14 to 119.

1. Previous recommendations not fully implemented

8. In accordance with section A, paragraph 7 of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations that have not been fully implemented by UNHCR. The Board has indicated the present position of implementation in the current report. The years shown in parentheses (starting from 1995) are those in which the Board recommended that UNHCR should:

(a) Ensure that audit certificates are submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing partners (1995 and 1996);

(b) Ensure timely signing of sub-agreements with implementing partners (1995 and 1996);

(c) Make the preparation of work plans an integral part of the project planning and monitoring process (1995 and 1996).

9. Concerning the recommendation on the submission of audit certificates (8(a) above), UNHCR informed the Board that its established policy requires implementing partners to present within a realistic period of time, after the end of the project, their audit certificates. For international and national NGOs the period of time set for submission of audit certificates falls beyond the time of finalization of the Board's audit. The Board noted that in respect of the financial period ended 31 December 1997, UNHCR had obtained some 70 per cent of the required audit certificates. The Board, however, would still urge UNHCR to encourage implementing parties to submit the audit certificates within the time frame stipulated by UNHCR in the agreements.

10. In accordance with the General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made by the Board in its report for the year ended 31 December 1997 (A/53/5/Add.5). Details of actions taken and the comments of the Board are outlined in the annex to the present report.

11. The General Assembly in its resolution 52/212B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving implementation of its recommendations approved by the General Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the General Assembly in a note by the Secretary-General (A/52/753 dated 26 December 1997), included the following main elements:

(a) The need for specification of timetables for implementation of recommendations;

(b) Disclosure of office holders to be held accountable;

(c) Establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be either in the form of a special committee comprising senior officials or through a focal point for audit and oversight matters.

The Board noted that UNHCR had generally complied with these requirements.

2. Main recommendations

12. In its present report the Board recommends that the Administration should:

(a) Treat advances to implementing partners as accounts receivable at the time the advances are made and clear the advances to expenditure on receipt of satisfactory financial reports; and also persevere with its efforts to clear the outstanding balances of cash advances expeditiously, particularly the balances relating to earlier years (para. 25);

(b)(i) Assess the reasons for non-compliance by re-pective government and non-governmental implementing partners with the requirement to render audit certificates as prescribed in the sub-agreements; and

(ii) Draw up a strategy, in consultation with the Board of Auditors, for securing sufficient audit certificates, based on the materiality and perceived level of risk of individual projects, to provide adequate evidence in support of expenditure reported by implementing partners (para. 33);

(c) Ensure that work plans are programme specific and that they are prepared as an integral part of the project planning and monitoring process (para. 51);

(d) Exercise stricter control over the progress of work of implementing partners in order to ensure achievement of the stated objectives; and recover the savings of $371,368 from the implementing partners concerned (para. 66);

(e) Review completed projects to ensure that they are promptly closed (para. 74); and

(f) Update plans still to be implemented under Project Delphi and prioritize those activities which can be implemented with the available resources; and monitor the implementation of those plans to ensure that they achieve their objectives (para. 99).

13. The Board's other recommendations are indicated in paragraphs 17, 19, 36, 43, 45, 48, 55, 59, 70, 77, 83, 89, 103 and 109.

B. Financial issues

1. Financial statements

United Nations Accounting Standards

14. The Board assessed the extent to which UNHCR's financial statements for the year ended 31 December 1998 conform to the United Nations Accounting Standards. The review indicated that the financial statements are generally consistent with the Standards, but further work was needed to bring the financial statements fully in line with those standards. The main areas for attention are:

(a) Recognition of income

In paragraph 90 of its report A/53/513 of 19 October 1998, the Advisory Committee for Administrative and Budgetary Questions (ACABQ) recommended that while income recognition for special programmes should be on an accrual basis, contributions for trust funds should be recognized only when received, as required under paragraph 35 of the United Nations Accounting Standards. The Board noted that UNHCR's financial statements for 1998 included an amount of $129.85 million, as voluntary contributions receivable, covering both special programmes and trust funds. The Board considers that the amount relating to the trust funds should have been excluded from this amount.

(b) Disclosure of liabilities for end-of-service benefits

The Board noted that UNHCR had not made specific disclosure in the financial statements of the amount of liability for end-of-service and post retirement benefits, indicating the basis of valuation, although required under paragraph 57 of the United Nations Accounting Standards. The Administration stated that such expenses are incurred and accounted for on a cash basis in the financial year when staff members are separated. It maintained that the amount of liability for 1998 could not be disclosed as the valuation could not be carried out prior to the closure of the accounts; it would carry out the exercise to determine the liability for disclosure in 1999. The Administration also stated that it was planning to engage the services of an appropriate professional firm for the valuation.

15. The Board is aware that the Consultative Committee on Administrative Questions (Financial and Budgetary), CCAQ (FB)'s review of United Nations Accounting Standards would specifically include the standards relating to matching of income and expenditure with regard to voluntary contributions and disclosure of liabilities for end of service and post retirement benefits. The Board awaits the outcome of the review.

Valuation of contributions in kind

16. Note 2(f) of the financial statements for the year 1998 states that contributions in kind are recorded at the fair market value. In practice, the Board notes that UNHCR employed two methods of valuing contributions in-kind; budgetary contributions in-kind were disclosed at the fair market value; whereas extra-budgetary contributions in-kind were disclosed at the value indicated by the donors.

17. **The Board recommended and the Administration agreed that in the notes to the financial statements the disclosure of the method of valuation of all contributions in-kind should be consistent with the actual method of valuation employed.**

Understatement of miscellaneous income and administrative expenses

18. The Board noted that bank charges and ex-gratia payments amounting to $1.05 million, which should have been booked as expenditure under administrative expenses, were netted off against other/miscellaneous income. As a result, administrative expenses and miscellaneous income were understated by a sum of $1.05 million. The Administration stated that it would develop a suitable procedure to be followed in the presentation of financial statements for 1999 and that these items would be disclosed in the note to accounts. The Board considers, however, that these items should be indicated as expenditure in the financial statements.

19. **The Board recommends that the Administration should disclose bank charges and ex-gratia payments in gross terms, rather than net them off against other/miscellaneous income.**

Cash advances to implementing partners

20. Under the accounting practices followed by the organization, cash advances to implementing partners are recorded as programme expenditure at the time the funds are advanced to the implementing partners. These advances are separately recorded under a memorandum suspense account, from where they are cleared on the basis of financial reports received from implementing partners. In its report for 1996, the Board recommended that UNHCR should urgently review this system. In its report for 1997 also, the Board of Auditors expressed concern at the substantial balances remaining outstanding in the memorandum suspense (X21) accounts and suggested that the exercise initiated by the Administration for a review of the system should be accorded high priority.

21. The Board examined the position of clearance of outstanding balances. It noted that during 1998, the Administration cleared $ 216.4 million from the memorandum suspense account. As a result the outstanding amount pertaining to the years 1994 to 1997 came down from $279.9 million as at 31 December 1997 to $63.5 million as at 31 December 1998.

22. For 1998 also, of $ 346.4 million advanced to the implementing partners during the year and recorded as expenditure, financial reports were yet to be received for $92.8 million as at 31 March 1999.

23. The Board is concerned at the lack of documentation in support of $92.8 million included in the expenditure in the financial statements for 1998.

24. The Administration informed the Board that it had completed the envisaged review of the accounting system and had decided that it would record instalments to implementing partners as expenditure and the portion of the instalments which has not been reported upon will also be recorded as accounts receivable at the end of the financial period. The Board considers that it would be more prudent to treat the instalments as accounts receivable at the time the advances are made, rather than to adopt the procedure proposed by UNHCR.

25. **The Board recommends that advances to implementing partners should be treated as accounts receivable at the time the advances are made and should be cleared to expenditure on receipt of satisfactory financial reports. UNHCR should also persevere with its efforts to clear the outstanding balances of cash advances expeditiously, particularly the balances relating to earlier years.**

Audit certificates from implementing partners

26. The Board noted that following its earlier recommendations, the Administration had established, as of 1 January 1997, a firm policy for audit certification requirements which made it compulsory for implementing partners to submit audit certificates. The standard text of UNHCR sub-agreements was also modified in April 1998 to make it obligatory for implementing partners to provide such certificates. UNHCR decided, as of 1 May 1998, inter alia, that:

(a) For United Nations and related agencies, no additional audit certification will be sought by headquarters other than the annual audited financial statements by the same or comparable authority that audits UNHCR's accounts;

(b) For Government partners, audit certificates are required within three months of the final date for liquidation of commitments;

(c) For international non-governmental organizations, audit certificates are required within six months of the end of the organization's fiscal year; and

(d) For national non-governmental organizations, audit certificates are required within six months of the final date for liquidation of commitments for all sub-agreements, or series thereof, valued at over $100,000 in any given year.

27. At the time of finalization of the Board's report for financial year 1997 no audit certificates had been received in respect of $370.4 million recorded as expenditure in 1997. Accordingly, the Board followed up on the progress of submission of the audit certificates from implementing partners for the year 1997 and earlier years. As of April 1999, out of the total value of projects involving $426 million which were implemented by partners, audit certificates covering an expenditure of $289 million were received, leaving a balance of $137 million for which no audit certificates were received. This comprised $59 million incurred by government implementing partners, $34 million incurred by international NGOs and $44 million by local NGOs.

28. The Administration had decided in 1998 that all partners implementing projects in excess of $1 million would be required to submit their certificates before the end of 1998, failing which no further payments would be made to them and they would be blacklisted. The Board noted that no payments were stopped on this account. The Administration stated that the decision to disclose the list of defaulting implementing partners had yet to be taken, as the Administration needed to assess the political effects of such a decision. A position paper on the matter might be presented at a future Executive Committee (EXCOM) Standing Committee meeting depending on the results achieved for 1998.

29. For 1998, cash advances totalling $346.4 million were made to implementing partners of which $98.2 million were given to government partners. Audit certificates from government partners were due within three months of the final

date for liquidation of commitments which, for most projects, would be the end of April 1999. The Board noted that as at 31 May 1999 audit certificates for $1.2 million had been received in respect of government partners. For other implementing partners, audit certificates had not been received in respect of $234.5 million of reported expenditure as these audit reports were not due until 31 July 1999.

30. The Administration informed the Board that more audit certificates from Government implementing partners would be forthcoming depending on the cycle of the respective Government audit authority. It added that it might be difficult for UNHCR to take further measures to improve compliance, without seriously jeopardizing its mandated activities and ultimately endangering the lives of the refugees. The Administration further stated that although the availability of audit certificates was an important monitoring tool for UNHCR, there were other compensating controls which provided the Administration with the assurance that funds were spent as specified in the sub-agreement. Such measures included a periodic review by UNHCR of the records of implementing partners, on the spot monitoring and third party reports, such as inspections and internal audits.

31. The Board recognizes the difficulties faced by UNHCR in securing audit certificates in sufficient time to provide a sound basis for drawing up its annual financial statements. The Board also appreciates UNHCR's substantial progress in following up and obtaining from implementing partners outstanding audit certificates relating to 1997 and earlier years. Notwithstanding these achievements, the Board is concerned that, at the time of finalization of the Board's audit, UNHCR still awaited audit reports from implementing partners in respect of $331.5 million reported as expenditure in UNHCR's 1998 financial statements. The Board considers that the Administration should strengthen its efforts to obtain audit certificates in sufficient time so as to have assurance that the expenditure has been incurred by the implementing partners in accordance with the sub-agreements.

32. The Board examined the accounts of some of the implementing partners. The Board has included in this report some of the deficiencies noted relating to project implementation and maintenance of accounts. In addition, during its review of the status of audit certificates for 1997 in 15 field offices, the Board noted that:

(a) One Regional Office closed project accounts on the basis of uncertified accounts provided by the implementing partners;

(b) One partner had not submitted the audit certificate although money had been given to it specifically for the purpose of getting its accounts audited;

(c) In three field offices no audit certificates had been obtained for 1997 and in one of these offices, no certificates had been obtained for 1996;
(d) Another office had not obtained audit certificates for 11 projects from 10 international partners for projects involving $8.79 million on the incorrect understanding that UNHCR Headquarters would obtain the same.

33. **The Board recommends that UNHCR should:**

(i) Assess the reasons for non-compliance by respective government and non-governmental implementing partners with the requirement to render audit certificates as prescribed in the sub-agreements; and

(ii) Draw up a strategy, in consultation with the Board of Auditors, for securing sufficient audit certificates, based on the materiality and perceived level of risk of individual projects, to provide adequate evidence in support of expenditure reported by implementing partners.

2. Write-off of losses of cash, receivables and property

34. Cash amounting to $42,090 was written off during the year. The write-off included an amount of $14,825, which represented the net shortfall in the cash kept in the safe in one field office after an amount of $ 6,000 was recovered from the head of the office on account of negligence. In another field office, $11,500 was written off in respect of an amount handed over to a money merchant for safe keeping since the field office did not have a safe and there was no local bank. The amount was written off since UNHCR claimed that nothing could be proven in the absence of documentation.]

35. The Board was concerned that adequate security measures were not taken by the field offices to safeguard the organization's cash and that UNHCR had been unable to assign responsibility for negligence in the latter case.

36. **The Board recommends that UNHCR should ensure all field offices are equipped with adequate facilities to safeguard the organization's cash. The Board also recommends that UNHCR further investigate the circumstances of the loss of $11,500 with the aim of taking recovery action as appropriate.**

37. The details of property and other categories of losses of property as reported by various field offices to the Asset Management Board at headquarters and written off during 1998, are as follows:

Category	Value in US $
Accident	65,881
Hijacking	130,722
Theft	228,724
Looting	1,852,925
Loss of property	77,044
Damaged/destroyed	79,177
Wear/tear	1,061,473
Others	542,221
Total	**4,038,067**

38. The Board noted that losses reported and written off in 1998 had increased threefold compared with the amount of $1.27 million written off in 1997.

3. Ex-gratia payments

39. The Administration reported that ex-gratia payments totalling $44,013 were made in five cases. The Board noted that this amount was understated by $5,650, since it did not include payments made by one branch office, to the family of a deceased staff member of a Government implementing partner.

C. Management issues

1. Cash management

Cash replenishment in field offices

40. Under the UNHCR Manual funds are to be called forward as close as possible to the date of their envisaged use to avoid the accumulation of unnecessarily high bank balances. Requests to headquarters are to be made by the field offices keeping in view the disbursement needs for the following maximum four weeks. The Manual stipulates that balances should be kept as low as possible.

41. The Board noted that in two branch offices the cash replenishments called for were much higher than the expenditure warranted, resulting in large closing balances. In one of them the closing balances ranged from $36,321 to $207,338.

42. The Board also observed that the cash replenishment called for by one branch office was far in excess of its requirement for the following four weeks. Following a cash replenishment on 14 December 1997 of $633,000, the office had a very high closing balance of $353,599 as at 31 December 1997. No fresh replenishments were called for until March 1998 and the year end balance was sufficient for three months' requirements.

43. **The Board recommends that UNHCR monitor the cash forecasts of field offices to ensure that funds requested do not exceed disbursement needs for the following four weeks.**

Petty cash management

44. In its report for 1997, the Board had commented upon the deficiencies in the system of cash management followed in the field offices and recommended adherence to the existing control mechanisms. The Administration had assured the Board that control mechanisms would be strengthened. However, during 1998, the Board also noted similar and other deficiencies such as:

(a) Petty cash was not verified by the head of office on a monthly basis (8 offices);

(b) Custodian of petty cash was not officially designated (5 offices);

(c) Monies received other than petty cash replenishments were deposited in petty cash accounts and final payments towards travel expenditure were made from petty cash (one office);

(d) There was no system of counting and formally handing over petty cash, when the custodian changed (4 offices).

45. **The Board recommends that UNHCR remind field offices to comply strictly with the prescribed control mechanisms for management of petty cash.**

2. Programme management

46. During 1998, UNHCR undertook 490 projects with a budget of $395 million. Of these, 21 projects with an outlay of $94.20 million were selected for review by the Board during the audit of accounts at UNHCR Headquarters. The Board also reviewed programme management in the various field offices and significant findings are detailed below.

Programme Planning

Caseload

47. In its reports for 1993 and 1995 the Board had pointed out the need to assess the caseloads of refugees accurately so as to ensure that programme benefits reach the intended beneficiaries. However, the Board noted that in almost all the projects reviewed at UNHCR Headquarters, up to date statistics on caseload were not provided in the programme description. In respect of 13 projects, there was no specific break-down by gender and between children and adults was also not available. In the absence of dependable statistics on caseload, the accuracy of the project formulation and in turn the appropriateness of relief measures taken might suffer. The Administration stated that it was working on the replacement of UNHCR's core support system which would include a caseload management system.

48. **The Board recommends that the proposed caseload management system of UNHCR should be adequately equipped to handle and generate accurate and reliable caseload statistics. Disaggregated data of the refugee population by age and sex should be made an integral part of the project formulation process.**

Work plans and performance indicators

49. Work plans are an essential part of project planning and are meant to provide a detailed schedule of implementation for the projects and milestones which can be used to monitor the progress. In its reports for 1994 and 1996 the Board has pointed to the need to prepare detailed work plans. However, the Board found that none of the projects reviewed in UNHCR Headquarters contained work plans or milestones for project implementation. In addition, during its examination of field office accounts, the Board noted that work plans had not been prepared in five field offices.

50. The Administration stated that the requirement for work plans and performance indicators, which had earlier been left to the discretion of the field offices, would be reintroduced as a planning and monitoring tool within the proposed operations management system.

51. **The Board recommends that UNHCR ensure that work plans are programme specific and that they are prepared as an integral part of the project planning and monitoring process.**

Delays in signing sub-agreements

52. In its reports for 1995 and 1996 the Board pointed out delays in signing sub-agreements with the implementing partners. The Board noted that delays persisted in the field offices and there was no appreciable improvement in the

situation. Under a care and maintenance project in a branch office, the sub-agreements were signed after delays of up to six months after the projects commenced. In three other branch offices, the sub-agreements with the implementing partners were signed only after delays ranging from two weeks to eight months after the commencement of the project. In one of the three offices, four of the five implementing partners were paid their first instalment before the agreement was signed.

53. In another branch office, although UNHCR had released an advance of $30,000 based on a letter of intent signed with the Government implementing partner on 28 January 1998, the sub-agreement was signed only in April 1998. The advance later became the subject of a dispute between the two parties as the implementing partner denied having received the advance. The matter remained unresolved at the time of the Boards' audit.

54. In a further branch office, the Board reviewed 40 sub-agreements signed during the years 1996 to 1998 and noted delays in 28 sub-agreements (70 per cent). At the same branch office, by the end of April 1999, headquarters had not sent the office Letters of Instruction (LOIs) for projects in 1999. LOIs are required to be in place on or before 1 January each year before commencement of projects.

55. **The Board reiterates its recommendation that the Administration should require the field offices to ensure that the sub-agreements are concluded before the commencement of the project. Release of funds should also take place after the sub-agreement has been signed.**

Programme Implementation

56. The Board has in its past reports expressed concern about the slow pace of execution and delayed implementation of programmes. The Board reviewed 54 cases of earmarked projects with a fund allocation of $51.75 million. These were to be completed in 1998 under Trust Fund Programmes. The Board noted that although the full allocation of funds was available during 1998, the expenditure incurred was $29.62 million, while disbursements made amounted to $18.20 million, i.e., 35 per cent of the funds available. In 11 cases, although available funds amounted to $3.92 million, no expenditure was incurred until the end of 1998.

57. The Administration stated that the non-obligation of funds was very seldom due to delays in issuance of LOIs and that all funds stated to be available were not necessarily available to be obligated. In many cases the contributions were received towards the close of the year and could not be spent in time.

58. The Board noted cases of delay in utilisation of funds even where funds were actually available. The Board observed that during 1998, UNHCR had to refund $1.38 million to 13 donors from whom contributions were received during January 1994 to March 1997. The Board's analysis of the refunds indicated that, despite receipt of contributions between October 1994 and February 1996 in three cases, amounting to $466,709, no expenditure was incurred. In one case, although voluntary contributions amounting to $555,896 were received in January 1994, LOIs were issued only in March 1995 and actual expenditure incurred by December 1997 was less than half the contribution. UNHCR had to refund $254,719 in this case. In the remaining cases the contributions were not utilized. The Administration stated that donors refused to re-allocate funds that were not spent. The Board was concerned that UNHCR had to refund some

contributions to the donors and that delays incurred in issuing the required documentation might have impacted on the implementation of projects.

59. **The Board recommends that UNHCR should closely monitor the use of available donor contributions by fixing milestones in order to minimize refunds of contributions.**

Performance of implementing partners

60. In its reports for 1994 and 1997 the Board had commented on the maintenance of accounts and implementation of programmes by implementing partners. The Board's current report shows that there continue to be deficiencies in the maintenance of accounting records and inadequacies in programme implementation, as indicated below.

61. In one branch office, in the case of a major government implementing partner:

(a) The implementing partner did not maintain basic accounting records such as a cash book and general ledger;

(b) Project documentation was incomplete and inadequate in most cases;

(c) In one case a voucher that totalled $1,640, had been altered to $2,000, and the higher amount claimed;

(d) The implementing partner did not maintain any list of non-expendable property of items procured through UNHCR funds;

(e) No log books were kept for the two vehicles transferred to the implementing partner from UNHCR, although required;

(f) Budgetary control was poor, and there was significant excess expenditure in respect of several budget lines in the final sub-project monitoring report. For instance, the expenditure incurred on furniture was $35,700 which was six times the budgeted figure of $6,000;

(g) An amount of $55,000, provided expressly for rehabilitation of the implementing partner's headquarters and regional offices was diverted and used for the construction of a new building that was not envisaged in the sub-agreement;

(h) Another amount of $22,500 provided in the budget for a LAN system in an identified location was reportedly used for the construction of a rest-house. The Branch Office has now formally requested the implementing partner to return the money.

62. In the same branch office, a Quick Impact Project (QIP), with a duration of seven months, aimed at identifying and alleviating the psychological trauma of returning refugees, although $50,040 out of the total budget of $55,600 had been spent and the liquidation date for the project was over, the implementing partner had only submitted an incomplete report for the first of the two phases. The second phase which involved community-based intervention for alleviating stress syndrome among residents had not been implemented.

63. In another branch office the Board found that:

(a) An implementing partner did not follow UNHCR guidelines while making procurements out of UNHCR funds;

(b) Under a programme on income generation implemented through another implementing partner, where beneficiaries were required to be less than 65 years of age and the income per household within the limits laid down, the Board noted from the list of beneficiaries that neither the age nor income criteria were followed in many cases and ineligible persons availed of benefits under the programme;

(c) A third implementing partner engaged in rendering medical assistance, did not refund amounts totalling $5,022 and did not disclose these amounts in the sub-project monitoring reports (SPMRs).

64. In another branch office:

(a) In a project to help refugees, a government implementing partner did not return to UNHCR savings of $371,368 secured under two projects. The prior approval of UNHCR had not been obtained for using the savings for other expenditure. The Board considers that the Administration should recover an amount of $371,368.

(b) In a sub-project for the construction of 300 houses for refugees, although only 182 houses could be built within the budgeted amount owing to escalation in costs, the allocations under electricity and water connections were fully expended because, according to Management, $32,355 was diverted to provide water and electricity to 210 existing prefabricated houses. The Board was concerned that the implementing partners had failed to secure UNHCR's approval for the reallocation of these funds.

(c) The implementing partner who was advanced a sum of $35,000 in 1995 for a sub-project aimed inter alia to provide training for refugee women as birth attendants, failed to submit a utilization report to confirm the achievement of the project objective. The branch office suspended the project.

65. The Board emphasizes the importance of close financial and performance monitoring of implementing partners.

66. **The Board recommends that the Administration should exercise stricter control over the progress of work of implementing partners in order to ensure achievement of the stated objectives. The Board further recommends that UNHCR recover the savings of $371,368 from the implementing partner concerned.**

Funds advanced to implementing partners

67. As a means of generating income for projects, UNHCR funds received by implementing partners are to be deposited in a separate interest-bearing bank account. Exceptionally, where government implementing partners are required to deposit all remittances in a general or central account, it should be maintained in such a way that UNHCR's funds are traceable.

68. From its examinations of field offices the Board noted that in the case of an implementing partner, Government funds and UNHCR remittances were combined, making identification of UNHCR funds difficult. The Board further observed that

repayments by borrowers of loans made through UNHCR funds remained in the bank accounts of provincial government bodies without being reutilised for refugee relief. In the two provinces visited, substantial repayments amounting to $1.4 million were retained in the accounts of government agencies for long periods.

69. In another field office, implementing partners who had returned unspent balances amounting to $42,868 to UNHCR had not refunded the interest accrued on the deposits. In three other cases, implementing partners did not deposit UNHCR funds in interest bearing accounts.

70. **The Board recommends that the Administration should instruct the programme staff to monitor whether the implementing partners have deposited the funds received from UNHCR in interest bearing accounts, and ensure that the interest due is credited to UNHCR.**

Closure of Projects

71. Under the UNHCR Manual, proper project control includes the timely closure of projects and sub-projects. Timely closure of projects is also essential from the point of effective budgetary control, financial management, cash management and accounting. A project is closed after obtaining all relevant reports needed to close it. The Board noted that out of 2,565 projects implemented during the years 1994 to 1997, 2,123 projects (83 per cent) had not been closed as of November 1998. The break-down by year is as follows:

Year	Number of projects	Number of projects not closed as of November 1998	Percentage of projects not closed
1994	705	499	71
1995	637	498	78
1996	637	561	88
1997	586	565	96
Total	**2,565**	**2,123**	**83**

72. The Administration attributed the delays in closure of projects to outstanding balances in the memorandum suspense account (X 21), lack of audit certificates, missing non-expendable property reports, non-refund of the unspent balances by the implementing partners and incorrect recording or discrepancy between the Headquarters and field records.

73. During 1998, UNHCR received refunds of $13.51 million on closure of more than one thousand projects pertaining to the period 1993 to 1997. The Board selected a sample of 60 cases involving a total amount of $11.33 million. These comprised 16 cases relating to the period 1993 to 1996 ($2.31 million) and 44 cases pertaining to 1997 ($9.02 million). The Board noted that there were delays ranging from one to five years in closure of projects and refund of the

money. As a consequence, large amounts of cash remained with implementing partners for long periods resulting in undue benefit to them.

74. **The Board recommends that UNHCR should review completed projects to ensure that they are promptly closed.**

Administrative support costs

75. The Board reviewed the trends in programme delivery and administrative support costs for the period from 1994 to 1998. In its report for 1996, the Board had pointed out wide variations in the programme delivery and administrative support costs and recommended that norms be fixed for these costs. In its report on action taken, the Administration had decided to cap general programme costs at 1 January 1998 levels. The Administration stated that it does not generally establish norms for programme delivery costs as a proportion of project costs, but agreed that norms could be established for administrative support costs in relation to the total project costs. UNHCR also proposed to harmonize its budget structure with that of some other United Nations agencies, after which it would consider establishing and maintaining norms for administrative support costs.

76. The Board noted that the percentage of administrative support costs to total project costs in the case of special programmes more than doubled over the last five years from 2 in 1994 to 5 in 1998. The Board was, however, pleased to note that the average administrative support costs for general programmes showed a noticeable decline from 10 to 5 per cent, the reduction being most marked in Europe and the Americas.

77. **The Board recommends that the Administration closely monitor the trends in the administrative support costs and establish appropriate norms.**

3. Asset management

MINDER system

78. The Board, in its reports for 1997 and earlier years, had recommended prompt action to complete the installation of MINDER in all field offices to reflect correctly the assets and to improve control. The Board considers that the non implementation of all the aspects of the MINDER system has been one of the major constraints in proper asset management in UNHCR.

79. The position of assets entered in MINDER was as follows:

Location of assets	Total number of assets	Assets entered in MINDER		Acquisition value (millions of US$)		
		Number	Percentage	Total assets	Assets entered in MINDER	
					Value	Percentage
With UNHCR	39,617	25,455	64	136	77.8	57
With IP's	16,736	10,999	66	135	78.4	58
Total	**56,353**	**36,454**	**65**	**271**	156.2	58

80. The Administration informed the Board that out of 125 countries where UNHCR has its operations, 83 countries had not fully implemented MINDER. Out of the 15 offices visited, the Board found that the bar code reader was not operational in five offices; software problems were experienced by another five offices; three offices were having problems in printing reports through the system; and in two offices the MINDER system itself was not operational.

81. The Administration found that 90 per cent of the unrecorded assets are in 13 countries and developed a systematic plan to complete MINDER implementation in all field offices. The first phase of the plan, started in October 1998, focused on approximately 20 per cent of the countries which hold approximately 80 per cent of the assets. The first phase was expected to be completed in the first quarter of 1999. The second phase is expected to follow up on the remaining 80 per cent of the countries which host 20 per cent of the assets. The third phase would be to carry out worldwide training to ensure that asset management is carried out consistently in all countries and to ensure that annual physical verification of assets with UNHCR and implementing partners takes place.

82. The Board observed that in the first phase UNHCR sent two task forces to cover four countries. The task force teams were expected to focus on installation and setting up of MINDER and on a physical check of assets. While they could make some progress, the teams could neither complete the capturing of assets in MINDER nor ascertain the actual position of assets. So far as the second phase is concerned, UNHCR has informed the Board that there has been an evolution in strategy based on the lessons learned from the first two task forces. The Administration stated that it was working on a proactive plan of action for the current year that should give substantive results before end of 1999. The Board will monitor the implementation of the exercise.

83. **The Board reiterates its recommendation that the Administration should take prompt action to complete the installation of MINDER in all field offices and implement all aspects of the system, so that the records correctly reflect the assets held by UNHCR and with the implementing partners.**

4. Procurement

84. The Board reviewed the overall efficiency and economy of procurement systems and procedures both at UNHCR Headquarters and in field offices. During 1998 UNHCR Headquarters undertook purchases amounting to $39.46 million. The Board reviewed procurement action involving $4.13 million. The Board's main findings are set out below.

Receipt of purchase plans

85. The Board noted some improvement in procurement planning as compared to 1998. Out of the 117 purchase plans pertaining to 1999, 30 were received by the due date of 16 October 1998 as compared to receipt of only 6 by the due date in the earlier year. The remaining 87 were received after the due date, of which 41 were received only in 1999.

Delays in receipt of goods

86. The Board reviewed 16 purchase orders at UNHCR Headquarters with a value of $4.13 million and noted that the actual date of receipt of goods was

available for only 7 cases. In four of these cases there was a gap of between three to seven months between the date for delivery requested by the requisitioner and the actual date of receipt. For example, the delivery of blankets at a total cost of $497,125, for persons displaced by the Kosovo crisis was delayed by three months from December 1998 to March 1999. In a second case of purchase of medical kits valued at $24,503 the requisitioner had requested supply of the kits by 15 August 1998. The Board observed that the goods were only shipped on 1 January 1999, delaying receipt by more then 5 months to the actual beneficiaries.

87. The Administration stated that the date of delivery recorded by the requisitioner is most of the time a "wish" date which does not take into account the required lead time.

88. The Board is concerned that the purchase of routine items intended for emergency situations should be subjected to such significant delays in delivery.

89. **The Board recommends that UNHCR review the procurement arrangements for items which are routinely required in emergency situations.**

90. The Board also noted the following cases of procurement undertaken by the field offices that indicated inadequate control over the purchase process.

(a) Competitive bidding not followed

(i) In a case relating to the supply of guards and secretaries, one branch office awarded the contract to a supplier for the years 1997 and 1998. The contracts valued at $74,682 and $89,225 respectively, were awarded without following the process of competitive bidding, on the ground that competitive bids had been obtained in 1996. The Board noted that when the contract was retendered for 1999, lower rates were obtained for the same services. The excess expenditure on this account worked out to $8,839 during 1997 and 1998. The Board considers that the contract should have been separately retendered each year;

(ii) Another branch office was following outdated purchase procedures. As a result, in respect of purchase orders with a value between $2,500 to $5,000, the office did not keep a written record of three informal quotations and reasons for selection, as required. In the case of purchases with a value of more than $5,000, the procedure of calling for three competitive bids through sealed quotations and their evaluation thereof, was not followed. Management accepted that in future the revised instructions would be complied with;

(b) Lowest bidder not accepted

In one case a branch office placed an order on the second highest bidder, without assigning any specific reason for rejecting the lowest offer, resulting in extra expenditure of $4,887.

(c) Requisite approval not taken

(i) The Board noted that in the absence of regular banking facilities, one branch office entered into agreements with private

money suppliers for supplying United States dollars on a commission basis for payment of its bills. The office awarded in January 1997, the contract for the supply of money to a local firm after considering three bids. The Board noted that the contractor had supplied a sum of $466,460 towards payments of bills of the office, during the period January to October 1998. The Board observed that since the contract in question was for a value exceeding $100,000, the approval of the Headquarters Committee on Contracts at Headquarters should have been sought. Management accepted that for supply of dollars for 1999, they would submit the case to the Headquarters Committee on Contracts;

(ii) In the same branch office, computers and accessories were purchased for $41,366 without obtaining the prior permission of Headquarters as required.

91. The Board trusts that UNHCR will ensure that field offices adhere more closely with the established purchase procedures.

5. Implementation of Project Delphi

92. In 1996 UNHCR introduced Project Delphi as a framework for planning and effecting changes envisaged by UNHCR. This project set out the action plan for the change process, which inter alia specified time frames for completion of various activities.

93. The Board reviewed the progress made by various Divisions in implementing Project Delphi and noted that in many of the key areas, the action taken was not adequate, keeping in view the time frame envisaged. The implementation of the project started in October 1996 following endorsement of the Project Delphi Plan of Action by the Executive Committee. Actions in pursuance of project objectives were to be completed in the short term (less than six months), medium term (six to twelve months) or in the long term of within twenty four months or more.

94. Under the Operational Management System (OMS), one of the actions to be completed within 6 to 12 months, i.e. by October 1997, was the elaboration of measurable objectives for protection and assistance activities. The Board noted that while some progress had been made in the area of protection, standard objectives and indicators on the traditional assistance activities of the UNHCR had not been developed by April 1999. Points for action under the OMS also included: (a) the development of operational guidelines, standards, norms, indicators and benchmarks and the elaboration of self evaluation mechanisms, and (b) review procedures for support to, and control of, implementing partners. Both these actions were to be completed by October 1997. The Board noted that the point at (a) above was still at the draft stage as of April 1999. Regarding (b) above, the Administration informed the Board that new instructions had been issued for the control of implementing partners.

95. Project Delphi also envisaged the improvement in the management of obligation levels and the tracking of expenditure. This was to be done in the medium term (6 to 12 months) i.e. by October 1997. The Administration stated that this issue was being examined in the context of replacement of UNHCR's financial system and that these requirements would be taken care of in the new Integrated Systems Project, scheduled for introduction in a phased manner over the next two to three years.

96. Under Project Delphi, intranet access was to be made available to all staff at all locations within six to twelve months of the commencement of the project. The Administration stated that technical limitations and resource constraints had delayed the introduction of the intranet in the field and that it would be deployed and made accessible to a majority of the staff by the end of the year 2000.

97. Project Delphi conceived that staff reductions in headquarters should eventually enable UNHCR staff at Headquarters to be accommodated in one building. The Board noted that staff continued to function from more than one building. The Administration stated that the progress in reducing the number of staff at headquarters had not been as fast as planned, but was hopeful that the introduction of the new Information Technology systems would allow streamlining of work, thus allowing reduction of staff at headquarters.

98. The Board observed that in most of the above areas, action should have been completed by October 1997. However, even after a delay of some 18 months in most of the above cases, the activity was either at draft stage or yet to commence. The Administration stated that while every effort had been made to implement the project within the indicated time-frame, the actions listed in the plan of action could not be completed due to resource constraints and the need to prioritize activities.

99. **The Board recommends that the Administration should update plans still to be implemented under Project Delphi and prioritize those activities which can be implemented with the available resources. It should also monitor the implementation of those plans to ensure that they achieve their objectives.**

6. Human resources management

Manpower

100. The Board examined whether the reductions in the staff levels were commensurate with the decrease in the refugee population and expenditure of UNHCR. The table below gives details of the refugee population, expenditure, staff in post as well as the ratio of staff between headquarters and the field.

Year	Refugee population (millions of US $)	Expenditure (millions of US $)	Staff	Ratio of staff between headquarters and field
1993	18.2	1,307	4,213	1:4
1994	16.4	1,166	5,143	1:4.6
1995	14.4	1,142	5,488	1:4.9
1996	13.2	1,145	5,697	1:4.9
1997	12	974	5,627	1:4.9
1998	12	842	4,852	1:4.7

101. The Board noted that although the refugee population and expenditures were generally declining from 1993 to 1998, there was an increasing trend in staff strength from 4,213 in 1993 to 5,697 in 1996, reducing to 4,852 in 1998. In February 1999, the Board noted that staff strength stood at 4,852 (including 651 short-termers and 102 JPOs). While activities in terms of expenditures incurred towards general and special programmes came down in 1998 by about 36 per cent compared to 1993, there was no corresponding reduction in staff levels which were 15 per cent higher than 1993 levels.

102. The Administration stated that the baseline for measuring UNHCR's downsizing efforts should be 1996, when the decline in the organization's global activities became most evident. The Administration, while sharing the concern of the Board regarding staffing levels, stated that one reason staff reductions lagged behind programme reductions was due to residual, phased-out activities related to repatriation operations. It added that in view of the Kosovo emergency, any margin that may have existed has proved indispensable and invaluable.

103. **The Board recommends that UNHCR should monitor its staffing levels and ensure that they are commensurate with the level of programme activities.**

Travel expenses

104. In its reports for 1994 and 1996 the Board had pointed out deficiencies in the management of travel claims. The Board reviewed the position in 1998 and noted that similar deficiencies persisted.

105. During 1998, 2424 travel authorizations (PT8s) were issued. The Board noted that as at March 1999, the Travel Unit had not received 122 travel claims in respect of the 2424 travel authorisations issued in 1998. For those travel claims which were submitted, the Board noted that there were delays in submission in 612 cases. In 517 cases, the delays ranged from one to six months, in 81 cases the delay was between 6 to 12 months and in 14 cases the delay was of more than 12 months. Under the rules, a staff member is required to submit his/her travel claim within 15 days of the completion of travel and failure to do so within one month could result in the recovery of the travel advance from the staff member's salary. The Board noted that no action for recovery of advance was taken despite the delays in submission of the claims.

106. This resulted in accumulation of several outstanding advances against a single staff member. A check of outstanding advances as on 28 February 1999 revealed that four or more advances each were outstanding against 151 staff members.

107. The Board was also concerned that as on 28 February 1999, in 242 cases, as shown below, a total of $219,466 was outstanding for recovery against staff members for claims dating as far back as 1991.

Year	No of cases	Amount of advance (US $)
1991	10	3,644
1992	6	15,346
1993	15	15,196
1994	43	49,449
1995	49	63,141
1996	28	33,136
1997	30	20,258
1998	61	19,296
Total	**242**	**219,466**

108. The Board noted that there was no effective system for restricting the payment of travel advances to staff members in case more than one advance was pending against that staff member. The high rate of untimely submission of claims persisted because UNHCR did not enforce the requirement that a staff member who fails to submit a travel claim within the prescribed time after completion of travel should have the advance recovered by salary deduction. The Administration informed the Board that a proposal for action in this area was pending review/approval.

109. **The Board recommends that the Administration should make more effective use of its provision to recover travel advances in cases of delayed submission of travel claims.**

7. Review of Memorandum of Understanding with Office of the Internal Oversight Services

110. In its report for 1997, following a request from ACABQ, the Board reviewed the implementation of the internal audit arrangements arising out of the Memorandum of Understanding (MOU) between the UNHCR and the Office of the Internal Oversight Services. At that time the Board had indicated that it would further review the implementation of the MOU in its future audits.

111. The MOU signed in April 1997 provides, inter alia, that:

(a) For adequate audit coverage at least 15 posts would be required, of which 4 would be posts of resident auditors;

(b) Audit coverage would aim at an average cycle of three years. Major and high risk operations would be audited more frequently and others less frequently; and

(c) UNHCR and the OIOS will create a common database on audit communications issued and the status of implementation.

112. The Board observed that while the MOU was effective from 29 April 1997 some of the additional posts were only filled in 1998 and 1999. Of the four resident auditors' posts in the field, two are pesently encumbered and another has been established in Nairobi recently. The location of one post for the field had not been decided as of April 1999.

113. From the implementation of the audit plan, the Board noted that in 1997 and 1998 OIOS conducted the audit of 21 offices (including 17 field units) and 22 offices (including 20 field units) respectively. There exist 143 country programmes as potential audit segments. Based on OIOS's analysis which envisages an annual coverage of 25 field units, arrears in audit may accumulate, considering the actual yearly audit coverage. OIOS stated that the average audit cycle was calculated using a risk based and materiality driven approach and OIOS concentrated audit resources on financially significant programmes.

114. The OIOS manual provides that the auditee should reply within 6 to 8 weeks of receiving the report from the OIOS. The Board noted that of the eight reports issued by OIOS in 1997, the Administration was yet to furnish a reply in one case as of April 1999. In another case, the reply was furnished after two years of the issue of the report. In the remaining cases, the reply was furnished between two to six months from the date of issue of the reports. Of the seven reports issued in 1998, replies to four reports had not been furnished. The Administration stated that it was working on improving the response time to the reports.

115. The Board noted that the MOU signed on 29 April 1997 between UNHCR and OIOS was superseded by an MOU signed on 29 April 1999. The new MOU was prepared in accordance with clause 14 of the first MOU, which provided that existing arrangements would be reviewed in the first half of 1999 to incorporate changes in the light of experience gained. The thrust of the new MOU is on strengthening the structure of the UNHCR Audit Section, OIOS and making it operationally more effective.

116. The Board will monitor the audit coverage of the UNHCR Audit Section, OIOS in light of the requirements and provisions of the new Memorandum of Understanding.

8. Cases of fraud and presumptive fraud

117. As required under the United Nations Financial Regulations and Rules, the UNHCR Administration reported two cases of fraud and presumptive fraud during the year. Details are given in the following paragraph.

118. In a regional office, the Regional Representative and the Senior Administrative Officer had misappropriated $32,683. The money was recovered and the two staff members were summarily dismissed in April, 1998.

119. In another case, the Representative of a field office was manipulating public auctions for vehicles, submitting fraudulent personal claims and abusing his authority. A sum of $ 24,618 was recovered from the official who resigned.

Acknowledgement

120. The Board wishes to express its appreciation for the cooperation and assistance extended by the High Commissioner and her staff.

*(Signed)*Osei Tutu PREMPEH
Auditor-General of Ghana

*(Signed)*Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

*(Signed)*Vijay Krishna SHUNGLU
Comptroller and Auditor General of India

29 June 1999

ANNEX

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the year ended 31 December 1997

I. RECOMMENDATION 11 (a)

1. Review the present method of recognition of income so that its accounting policies and practices follow the United Nations Accounting Standards.

Measures taken by the Administration

2. UNHCR sought guidance from the Advisory Committee for Administrative and Budgetary Questions (ACABQ) and its Executive Committee on the Board of Auditors' recommendation. The Advisory Committee was of the view that income recognition for special programmes should be on an accrual basis, while article 35 should continue to apply to trust funds. In its report on the revised budget of the UNHCR for 1998 and initial estimates for 1999, the ACABQ has made recommendations on the reclassification of UNHCR programmes, which, if approved would resolve the issue raised by the Board of Auditors.

Comments of the Board

3. UNHCR has yet to take action on the advice of the ACABQ. The Board has commented on the issue in the present report.

II. RECOMMENDATION 11 (b)

4. The Board reiterates its recommendation that UNHCR should focus attention on timely review and cancellation of obligations no longer required.

Measures taken by the Administration

5. The recently established Project Unit has been made responsible for reviewing the level of obligations and ensuring that obligations are cancelled as soon as they are no longer required. Unliquidated obligations are constantly under review and amounts no longer needed are immediately cancelled. Progress in this regard is reflected in the continuing decrease in the amount remaining as unliquidated at the end of the year and the percentage it represents of the total obligations for the corresponding year (13.6 per cent in 1998 as compared to 14.1 per cent in 1997 and 17.3 per cent in 1996). The retention of funds, if required, is contingent on the existence of valid and reliable documentary evidence.

Comments of the Board

6. The Board appreciates the progress and will continue to monitor the issue.

III. RECOMMENDATION 11 (c)

7. Ensure timely submission of sub-project monitoring reports and ensure that funds are disbursed to the implementing partners only when required.

Measures taken by the Administration

8. A database has been established to monitor certain aspects of the performance of NGO partners, including their ability to submit audit certificates and timely financial reports. If agencies are unable to meet their contractual responsibilities in this regard, UNHCR will not sign subsequent agreements with them. UNHCR has already decided to withhold instalments, as of September 1998, to those agencies which have not complied with the initial request to submit the basic information needed for the establishment of the above-mentioned database. UNHCR has revised in January 1999, Chapter 4 of its manual, placing more accountability on the UNHCR country representative to establish appropriate measures for the timely submission of sub-project monitoring reports by the implementing partners and to ensure that funds are disbursed to them only when needed.

Comments of the Board

9. The Board will monitor the progress in future audits.

IV. RECOMMENDATION 11 (d)

10. Monitor more closely the timing of project delivery, particularly in those projects which are time critical.

Measures taken by the Administration

11. The ability of the UNHCR offices to fully implement annual projects as originally budgeted generally depends more on prevailing field conditions and timely receipt of funds rather than on an unrealistic assessment of needs or faulty budgeting. Original project objectives have not always been met because funds are often received late and the often difficult working conditions in which refugee programmes are implemented.

12. Other delays in project implementation have been due to UNHCR's internal procedures. These have largely been addressed and improvements made. The time required to prepare and dispatch Letters of Instruction has been significantly shortened. The programme cycle was changed in 1997 to facilitate this. Budget decisions are now taken early in the year to allow sufficient time to prepare implementing instruments. Field offices now have greater flexibility to revise budgets locally, which reduces the need to submit amendments back to Headquarters.

Comments of the Board

13. The Board's review of programme implementation showed that the position is still not satisfactory. The Board will continue to monitor implementation in future audits.

V. RECOMMENDATION 11 (e)

14. Take prompt and effective steps to ensure that adequate sex/age disaggregated statistics are collected and used in the formulation of programmes for women.

Measures taken by the Administration

15. Increasingly, refugee statistics by sex and age groups are made available through UNHCR's reports to the Executive Committee and in other documentation. The use of sex disaggregated information in programme planning is encouraged, inter alia, through the People Oriented Planning training programme and will be enhanced by the new Operations Management System (OMS) planning and implementation mechanisms. As part of 1999 programming instructions, all field offices have been requested to report on progress in the area of refugee registration, an important instrument to collect demographic statistics.

Comments of the Board

16. The Board notes the position.

VI. RECOMMENDATION 11 (f)

17. Encourage all field offices to respond to the High Commissioner's request so that it can make a full assessment of the work required and funds needed to implement the Machel report on refugee children.

Measures taken by the Administration

18. Following a memorandum issued to all Representatives and Chiefs of Mission in June 1998, some 75 countries have submitted a progress report on the implementation of their country-based Machel Study plans of action. Numerous offices indicated that as a result of 1998 funding shortfall, they had to reduce their operational budgets, thereby curtailing, inter alia, Machel related activities. In 1999, instructions have been issued to Representatives reminding them of the priority that UNHCR attaches to the mainstreaming of activities in favour of children and adolescents. A $4.23 million contribution received in July 1998 has been especially helpful in ensuring implementation of Machel Study plans of action, in full partnership with non-governmental organizations (NGOs). Similar contributions will be required to continue these efforts into 1999, allowing UNHCR to comply with the Board of Auditors' recommendation.

Comments of the Board

19. The Board considers that these concerns need to be continually addressed by UNHCR.

VII. RECOMMENDATION 11 (g)

20. Develop a comprehensive monitoring and evaluation system to ensure that the concerns envisaged in the environmental policy are addressed adequately.

Measures taken by the Administration

21. UNHCR is making efforts to ensure that environmental concerns are appropriately incorporated in the field operations through the inclusion of environmental components in the OMS tools, provision of environmental training to the staff of UNHCR and its implementing partners (starting in October 1998),

promoting field model environmental projects, supporting field environmental workshops and deploying field environmental coordinators. Systematic environmental data collection and compilation is being done in various countries. A comprehensive report on environmental policy compliance will be prepared by mid-2000, utilising results of the survey. As a part of restructuring, the former Environment Unit has been merged with the newly created Engineering and Environmental Services Section, which will be responsible for policy coordination on environmental issues.

Comments of the Board

22. The Board notes the position.

VIII. RECOMMENDATION 11 (h)

23. Take prompt action to complete the installation of MINDER in all field offices and implement all aspects of the system, so that the records correctly reflect the assets held by UNHCR and with the implementing partners, and improve the control over the physical assets.

Measures taken by the Administration

24. Task forces were sent to Zambia, Angola, the United Republic of Tanzania and the Sudan. MINDER was set up in the countries visited, in addition to conducting physical check of assets and providing training. Senior management is currently reviewing mission results and exploring avenues to attain the most efficient method to complete the asset management task by the year end. In March, 1999, instructions have been issued creating Regional Asset Management Boards and detailed guidelines have been laid down for Local, Regional and Headquarters Asset Management Boards.

IX. RECOMMENDATION 11 (i)

26. Ensure that all systems are tested for Year 2000 compliance with sufficient lead time to address any deficiencies.

Measures taken by the Administration

27. For personal computers and networks, field file servers have been upgraded to Year 2000 compliant version of Novell Netware. File server hardware and new e-mail servers will be purchased, where required by the field offices. All Headquarters workstations will have been checked and necessary internal configuration upgrades completed by 31 May 1999. Non-compliant software will be replaced.

28. For its mainframe based systems, UNHCR plans migration to the Year 2000 compliant mainframe system in advance of the September 1999 deadline set by the International Computing Centre.

29. The Year 2000 compliant version of FMIS Field (Financial system) has been developed and will be deployed in all field offices starting in June 1999, with completion by the end of the third quarter of 1999. Field deployment of the Year 2000 compliant version of MINDER would be completed by the end of the third quarter of 1999, while that of the Medical Insurance Plan (MIP) system had been

deployed to the field. The remaining standard field systems are Year 2000 compliant.

30. Most of the programmes on intranet development and regular telecommunications equipment and sources are Year 2000 compliant; the remaining cases would be made compliant shortly.

Comments of the Board

31. The Board encourages UNHCR to ensure that systems are in place and fully tested by the end of 1999 and to develop appropriate contingency plans for continuing its operations in the event of systems breakdown.

Chapter II

AUDIT OPINION

We have audited the accompanying financial statements comprising statements I to III, schedules 1 to 10, the appendix and the supporting notes to the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 1998. These financial statements are the responsibility of the High Commissioner. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the High Commissioner, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all respects, the financial position as at 31 December 1998 and the result of operations and cash flows for the period then ended in accordance with UNHCR's stated accounting policies set out in Note 2 to the financial statements which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the voluntary funds administered by the United Nations High Commissioner for Refugees, which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

In accordance with article XII of the Financial Regulations, we have also issued a long form Report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees.

Osei Tutu PREMPEH
Auditor-General of Ghana

Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

Vijay Krishna SHUNGLU
Comptroller and Auditor General of India

29 June 1999

CHAPTER III

STATEMENT OF THE HIGH COMMISSIONER'S RESPONSIBILTIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the Accounts of the Voluntary Funds Administered by the United Nations High Commissioner for Refugees which are submitted to the Executive Committee of the High Commissioner's Programme and to the General Assembly of the United Nations.

To fulfill its responsibility, UNHCR operates within prescribed accounting policies and standards and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the United Nations Audit and Management Consulting Division of the Office of Internal Oversight Services and the United Nations Board of Auditors, during their respective audits.

In this context, the following appended financial statements, comprising Statements I to III, Schedules 1 to 10, Appendix I and Supporting Notes, were prepared in accordance with UNHCR Financial Rules (A/AC.96.503/Rev.6) and the United Nations Common Accounting Standards. In Management's opinion, the accompanying financial statements present fairly the financial position of the Office as of 31 December 1998, and the results of its operations and its cash flows of individual Programmes, Funds and Accounts for the year then ended.

The Accounts are hereby:

Certified :
(Signed) Jean-Marie Fakhouri
Controller and Director

Approved :
(Signed) Sadako Ogata
United Nations High
Commissioner for Refugees

Geneva
5 March 1999

CHAPTER IV

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS

(See document A/AC.96/915, *Voluntary Funds Administered by the United Nations High Commissioner for Refugees - Accounts for the year 1997*).